

AFRICAN DEVELOPMENT BANK GROUP



**The Sixth General Increase in the Capital
Resources of the African Development Bank:
Issues and Framework**

25 March 2009

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LIST OF ACRONYMS

| | |
|------|-------------------------------------|
| ADB | African Development Bank |
| ADF | African Development Fund |
| AsDB | Asian Development Bank |
| BWI | Bretton Woods Institutions |
| DRC | Democratic Republic of Congo |
| DUC | Debt to Usable Capital |
| FDI | Foreign Direct Investment |
| ELF | Emergency Liquidity Facility |
| GCI | General Capital Increase |
| HIPC | Heavily Indebted Poor Countries |
| IFI | International Financial Institution |
| IMF | International Monetary Fund |
| LIC | Low Income Country |
| MDG | Millennium Development Goal |
| MDB | Multilateral Development Bank |
| MIC | Middle Income Country |
| MTS | Medium Term Strategy |
| NCB | Non-Concessional Borrowing |
| NPV | Net Present Value |
| ODA | Official Development Assistance |
| RMC | Regional Member Countries |
| RCUR | Risk Capital Utilization Rate |
| TFI | Trade Finance Initiative |
| WB | World Bank |

GCI-VI Issues and Framework

Executive Summary

1. The Medium Term Strategy (MTS) of the African Development Bank (ADB or the “Bank”) projects average annual growth in lending of 14% between 2009 and 2012 assuming an overall demand for financing from the International Financial Institutions (IFIs) in line with nominal GDP growth and a strengthened position of the Bank as the premier development institution in Africa. The international financial crisis and the resulting global economic downturn that began in 2008 are now negatively impacting the African continent and threatening the achievements of the last decade of sustained economic growth. In order to address the rapidly diminishing access to capital faced by its clients, the Bank recently adopted a set of initiatives¹ that include the establishment of flexible and fast disbursing facilities (Emergency Liquidity Facility (ELF), Trade Finance Lines of Credit) that will result in a swifter increase of the Bank’s lending portfolio than envisaged in the MTS.
2. The execution of the Bank’s expected MTS lending growth will lead a key financial ratio, namely the Debt to Usable Capital (DUC) to reach its policy limit in 2013. With the additional activity generated by the Bank’s response to the financial crisis this ratio is now expected to breach its limit two years earlier, in 2011.
3. This projected financial position indicates that in order for the Bank to fulfill its development mandate while remaining a financially strong institution, the capitalization of the Bank needs to be strengthened. In depth analysis of potential financial policy options to free up capital headroom shows that they can only provide temporary relief but do not ensure a sustainable and long term increase in the Bank’s lending capacity. A capital increase would therefore become necessary in 2011 to provide the Bank with the capacity to respond appropriately to the financial and economic crisis and support the scaling up of its operations, in line with the Bank’s agreed strategic priorities.
4. **The adoption of a Sixth General Capital Increase of the Bank (GCI-VI) in 2010, representing a 200% capital increase, with a paid-in capital ratio of 6% and payments spread out over an 8-year period starting in 2011** would maintain the Bank’s prudential ratios within their limits until 2018 if the impact of the financial crisis on the Bank’s operations subsides at the end of 2010.
5. The consultation process required for the implementation of a capital increase necessitates timely and adequate preparatory works that should start in 2009. Hence, the Board of Directors is requested to transmit to the Board of Governors for its adoption at the 2009 Annual Meetings a Resolution authorizing the commencement of consultations for a Sixth General Capital Increase of the Bank.

¹ See ADB/BD/WP/2009/27 document, “Bank Response to the Economic Impact of the Financial Crisis”

I. Introduction

1.1 The Bank's current financial position is strong and its risk bearing capacity sufficient to support the planned level of operations under the MTS for 2009-2012 approved in December 2008. However, the execution of the expected MTS lending program will lead a key strategic prudential ratio, namely the Debt to Usable Capital to reach its policy limit in 2013. On 4 March 2009, the Board of Directors approved the "Bank Response to the Economic Impact of the Financial Crisis in Africa", specifically a set of financial crisis response proposals that include the establishment of a USD 1.5 billion Emergency Liquidity Facility and a USD 1 billion Trade Finance Initiative (TFI). As a result of the projected additional client demand induced by the crisis and the fast disbursing nature of ELF and TFI, the Bank's outstanding loan portfolio will experience a swifter increase than envisaged in the MTS scenario with DUC now projected to breach its limit in 2011. The other two key strategic prudential ratios monitoring capital adequacy, the Risk Capital Utilization Rate (RCUR) and the gearing are expected to breach their limits in 2012.

1.2 A capital increase would therefore become necessary in 2011 to provide the Bank with the capacity to respond adequately to the financial and economic crisis and support the scaling up of its operations. The impetus for further strengthening of the Bank's financial capacity and increase of resources is anchored in recent declarations issued at International Forums such as the G20 and the African Union that have recognized the important role the Bank should play in assisting African countries affected by the unprecedented financial crisis and have called on the Bank to play a strong counter-cyclical role to mitigate its impact. The G20, together with an overwhelming majority of the Bank's shareholders, both Regional and Non Regional, have agreed to review the adequacy of the resources of the Bank and gear up its financial capacity when necessary to support the expansion of its operations. The consultation process required for the implementation of a capital increase necessitates timely and adequate preparatory works and this document is meant to pave the way for achieving this objective.

1.3 Following this introduction, the document presents in section 2 the scale of demand for capital in the African continent; section 3 underlines the importance of the Bank's mandate in providing needed financing; section 4 reviews the latest capital increase and the current state of the Bank's capital; section 5 develops a strong rationale for the Bank's capital increase on the basis of scenarios for projected levels of demand and capital increase triggers; section 6 proposes a General Capital Increase (GCI) scenario, section 7 elaborates on the GCI process and section 8 presents the conclusions and recommendations.

II. Africa: a continent in need of capital

2.1 Scale of demand

2.1.1 Until the onset of the financial crisis, the conditions for accelerating growth and development to make progress towards the targets of the Millennium Development Goals (MDGs) were largely in place. However, the continent's average annual growth rate of approximately 5.8% (2008) was still significantly lower than the 7% annual growth rate required to reduce poverty by half by 2015. The rate of growth for 2009 will be negatively impacted by the crisis and is now estimated to be only 3.2%.

2.1.2 Official Development Assistance (ODA) to Africa, although still falling far short of commitments, grew at a respectable pace from an average of US\$ 16 billion during the 1998-2001 period to US\$ 28 billion during the 2002-2005 period. However, in June 2008, the MDGs Africa Steering Group estimated that, to achieve the MDGs in Africa, annual external public financing worth US\$ 72 billion per year will be required until 2010 which makes necessary the scaling up of existing initiatives (ODA flow to Africa was only half this amount at US\$ 38.7 billion in 2007).

2.1.3 Various estimates of the financing needs for Africa to achieve basic infrastructure needs indicate that the current level of financing is a tiny fraction of what is required. A 2008 report of the Africa Infrastructure Country Diagnostic² estimates that annual investments of US\$ 75 billion are needed over 10 years to close the financing gap in infrastructure.

2.2 Increased demand induced by the financial crisis

2.2.1 The international financial crisis and the resulting global economic downturn that began in 2008 are expected to significantly affect the African continent through a number of channels. The deterioration of the fiscal and external accounts in oil-producing African countries due to the sharp decline in oil prices during the second half of 2008 is spreading to the rest of the continent in the course of 2009 as the recession in Africa's most important export markets (Europe and the USA) results in a slow-down in non-oil exports. Africa will move from an overall budget surplus of 2.2 per cent of GDP in 2008 to a deficit of 5.5%. This is equivalent to a change of 7.7 % in the fiscal deficit as share of GDP. These large reductions in budget balances will place additional pressure on delivery of basic services and constrain the ability to use fiscal stimulus packages in many of the member states. The current account projections for 2009 indicate that Africa will move from an overall surplus position of 2.9 per cent for both 2008 and 2007 to an overall deficit of 4.6 per cent of GDP reflecting a change of 7.4 percentage points of GDP. Africa faces a risk of a decrease in its stock of foreign exchange reserves equivalent to at least US\$ 127 billion including US\$ 58 billion for African Low Income

² A joint effort of the ADB, AU, AFD, DfID, EU, NEPAD, Public Private Infrastructure Advisory Facility, Sub Saharan Africa Transport project and the World Bank

Countries (LICs). There will be a potential need for increased budget support and balance of payments support for RMCs.

2.2.2 At the same time, the sharp tightening of the international financial markets has already brought private portfolio flows to Africa to a virtual halt and Foreign Direct Investments (FDIs) are expected to be adversely affected as well, although to a lesser extent. Africa's overall financing needs, to meet rising fiscal and current account imbalances, are thus increasing substantially in 2009 (and beyond) while the availability of financing from private investors and international financial markets has already started to be curtailed significantly. With little or no access to portfolio investments expected in 2009 and under relatively conservative assumptions regarding FDIs (a 50% decline from the level of 2008), a shortfall in financing available to Africa could easily reach US\$ 20 billion in 2009.

2.2.3 The effects of the crisis are especially hard felt in economies with weak initial conditions and high levels of poverty. These are countries with limited fiscal space due to high budget deficits and weak external positions, having to cover large current account deficits. The majority of these are low-income countries and fragile states. In these countries, the poor are disproportionately affected, due to lack of safety nets. At the same time, the ability of governments to respond is severely constrained by the erosion of their fiscal space in the face of declining revenues. The key concern is that the crisis causes declines in government expenditures in social services, plunging the poor into deeper poverty. This is especially the case in countries that have been severely hit by the food and oil crisis that preceded the current economic crisis. The food crisis had particularly affected the poor, especially the urban poor who depend on the market for their food supply. At the macroeconomic level, low-income countries are exposed to the risk of falling into unsustainable macroeconomic imbalances as they seek to finance vital expenditures through borrowing especially from domestic markets. In the extreme cases, should the crisis persist, some may even have to default on their debt payments, which would further jeopardize their access to external financing in the medium term.

2.2.4 The transitory and permanent effect of the crisis thus provides an urgent and compelling reason for a sizable increase in lending from IFIs and the Multilateral Development Bank (MDBs), in general, and from the ADB, in particular.

III. Delivering on the Bank's mandate

3.1 Relevance of the Bank for the development of Africa

3.1.1 Unless substantial additional financing is mobilized through IFIs, the international financial crisis threatens to turn back the clock on progress achieved during decades of reforms that have geared economic policy toward ensuring Africa is a more attractive destination for private capital. Stepping up lending from the Bank at this particular juncture is thus not only important in assisting RMCs weather the immediate adverse

effects of the financial crisis, but is critical for Africa's economic growth and development prospects over the medium term.

3.1.2 The Bank is well-positioned to assist RMCs in responding to the challenges resulting from the financial crisis. It enjoys a unique position in Africa and the development community, and its continental mandate and sole focus on African development priorities confer legitimacy and position the Bank ideally to build effective and credible partnerships with both African and non-African institutions. The Bank is recognized for its performance in the areas of infrastructure, regional integration, and governance. It is also becoming an increasingly strong player in private sector development and has tripled its private sector investment in 2007. Infrastructure, governance, private sector development, regional integration and trade remain the Bank's core operational focus and key areas for sustaining growth on the African continent. Infrastructure and private sector development will be hit hardest by the shortfall of FDI and therefore have the highest need for substitution by IFIs.

3.1.3 The Bank has the advantage of having its sovereign and non-sovereign operations integrated under one roof. This provides the Bank with a greater ability to tailor and coordinate engagements to specific country needs. The Bank, as the leading development institution of Africa will be able to specifically address different country needs, selectively deploy additional resources and effectively coordinate their utilization through its sovereign and non-sovereign windows.

3.2 The Medium-Term Strategy (MTS)

3.2.1 The MTS lending scenario for 2009-2012 was developed against the backdrop of a positive outlook for the global economy and the international financial markets. Before the financial crisis took hold, Africa had seen a decade of unprecedented economic growth and rising levels of FDIs, mainly in the area of infrastructure. Although concentrated in relatively few, primarily oil-rich countries, FDIs nearly doubled since 2004 to reach more than US\$ 30 billion in 2008. Meanwhile, traditional and new donors (China, primarily) were keen to make good on promises to provide additional financial resources. With this favorable outlook of sustained growth and increasing availability of financing from private and public sources, the MTS lending scenario was developed around two key assumptions: an overall demand for financing from IFIs in line with nominal GDP growth, and a strengthened position of the Bank as the premier financier of Africa's economic growth. With projected annual growth in lending of 14% between 2009 and 2012, the MTS scenario thus reflected the Bank's ambition to increase its share of financing from IFIs, focusing mainly on infrastructure, governance, and private sector development.

3.2.2 While the Board of Directors approved the MTS strategy for the 2009-2012 period, the MTS lending scenario which provides an analysis over a longer period (2009-2018), assumes that annual approval from 2013 onwards remain at the 2012 level (see table 1).

Table 1: The Bank's MTS Scenario (in UA million)

| MTS* | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| ADB Private Lending | 840 | 1,140 | 1,110 | 1,276 | 1,276 | 1,276 | 1,276 | 1,276 | 1,276 | 1,276 |
| ADB Public Lending | 1,347 | 1,031 | 1,780 | 2,016 | 2,016 | 2,016 | 2,016 | 2,016 | 2,016 | 2,016 |
| Total | 2,187 | 2,171 | 2,890 | 3,292 | 3,292 | 3,292 | 3,292 | 3,292 | 3,292 | 3,292 |

3.3 Responding to the financial crisis

3.3.1 While the severity and duration of the financial crisis and global economic downturn is difficult to gauge at this point, two financial crisis scenarios are considered: a short-lived crisis scenario incorporating the Bank's already approved immediate response (including the ELF and TFI initiatives) and a drawn-out crisis scenario including total estimated demand likely to be faced by the Bank in the upcoming years.

3.3.2 The short-lived crisis scenario includes the key elements of the "Bank's Response to the Financial Crisis" that was approved by the Board of Directors on 4 March 2009. The crisis is assumed to peak in 2009-2010, resulting in an additional lending of UA 2.813 billion over this period, including the implementation of ELF and TFI facilities (see table 2).

Table 2: The Bank's short-lived crisis scenario (in UA million)

| Short-lived crisis scenario* | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| ADB Private Lending | 1,175 | 1,965 | 1,110 | 1,276 | 1,276 | 1,276 | 1,276 | 1,276 | 1,276 | 1,276 |
| ADB Public Lending | 2,431 | 1,600 | 1,780 | 2,016 | 2,016 | 2,016 | 2,016 | 2,016 | 2,016 | 2,016 |
| Total | 3,606 | 3,565 | 2,890 | 3,292 | 3,292 | 3,292 | 3,292 | 3,292 | 3,292 | 3,292 |

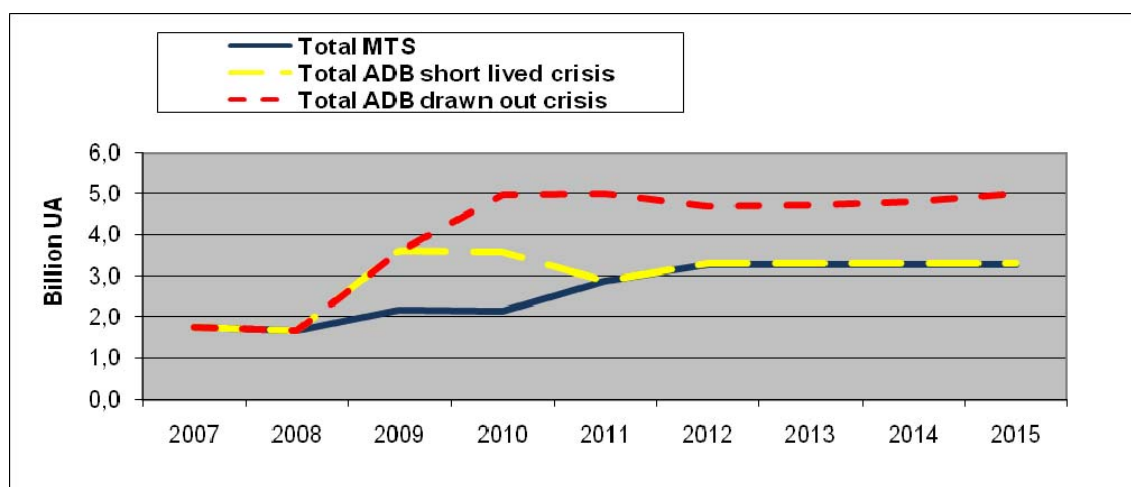
3.3.3 The drawn-out crisis scenario incorporates the total estimated demand that the Bank is likely to face as a result of the financial crisis. An increase of UA 4.2 billion over MTS projections is assumed over the 2009-2010 period. Beyond 2010, an additional average yearly lending program of UA 1.660 billion over MTS projections is envisaged (see table 3). Chart 1 illustrates the Bank lending program under the three scenarios.

Table 3: The Bank's drawn-out crisis scenario (in UA million)

| Drawn-out Crisis scenario* | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| ADB Private Lending | 1,270 | 2,001 | 1,755 | 1,706 | 1,754 | 1,830 | 1,938 | 1,938 | 1,938 | 1,938 |
| ADB Public Lending | 2,431 | 2,971 | 3,235 | 2,986 | 2,964 | 2,988 | 3,063 | 3,063 | 3,063 | 3,063 |
| Total | 3,701 | 4,971 | 4,990 | 4,692 | 4,718 | 4,817 | 5,001 | 5,001 | 5,001 | 5,001 |

*The projected strategic limit ratios are subject to changes linked to the continuous updating of the portfolio, financial statements and assumptions.

Chart 1: The Bank's Lending Program under the MTS and Financial Crisis Scenarios



3.4 Increasing financing for development

3.4.1 The need for additional resources to support sovereign guaranteed transactions in poorest LICs is expected to become more evident during 2009, possibly on a wider scale. The issues involved for the Bank to be able to rise up to this challenge are substantial, and donors will have constraints and concerns. Nevertheless, a focused discussion around likely scenarios and possible options should be considered in the near term. To maximize its support to financing for development, the Bank will examine the operational and policy options presented below.

3.4.2 **Non-concessional debt accumulation policy for green light countries.** The first policy under review concerns the financing of “green light” countries investment needs. With the Heavily Indebted Poor Countries (HIPC) debt relief having been delivered for a significant number of countries, improved debt sustainability has opened up new financing opportunities, in particular for the dozen countries (ADF and Blend) now classified as ‘low risk’. Since 2002, these countries have seen their private capital flows increase sharply and over the past two years two post HIPC countries managed to successfully place international bonds. However, such non-concessional borrowing is strictly constrained under the Non-Concessional Borrowing (NCB) policies of the Bretton Woods Institutions (BWIs) and the Bank. With the current financial crisis, alternative sources of financing are drying up, as witnessed by the postponement of bond issuance by some of these countries. The BWI and the Bank are reviewing their NCB policies in a coordinated manner along the following lines: country classification could be reconsidered to take better account of the diversity of countries regarding their debt vulnerability and macroeconomic and debt management capacity. Countries with low risk of debt distress could be allowed a higher envelope of non-concessional borrowing from other sources and such non-concessional borrowing could be allowed to finance programs such as the general budget (as opposed to only investment projects currently). For countries with high macroeconomic and debt management capacity, more flexible

debt management arrangements can be considered such as setting debt Net Present Value (NPV) targets. Consultations are currently on-going in the International Monetary Fund (IMF) about the general principles identified above. If endorsed, it is expected that detailed proposals will be submitted to the Board of Directors of the IMF by September 2009 following which the NCB policies of the World Bank (WB) and the Bank would be amended accordingly. It is not expected at this moment that the proposed changes would lead to amendment to the credit policy of the WB or ADB.

3.4.3 Financing of Enclave Projects. Management will also review the conditions of eligibility for enclave project financing, with a view to supplement limited ADF allocations with ADB financing. Enclave projects are critical investments in export oriented projects in ADF countries backed by foreign exchange earnings, with a government obligation/undertaking.

3.4.4 Review of the Bank's credit policy: In May 1995, the Board of the Bank adopted a resolution which mandates that pending the formulation of its own system of country classification, the Bank Group adopt the World Bank's Credit Policy. In 1998, some member countries were concerned about the limited availability of funds to ADF only countries and raised whether it was the right time for the Bank to develop its own credit policy. However, a decision was taken to continue the existing credit policy and review and amend it as economic conditions and creditworthiness of RMCs improve in response to their on-going structural economic reforms. Several African countries have since made significant progress in their economic reforms. Additionally the current financial crisis has aggravated the financing gap in several LICs and the Bank has been called upon to play a larger counter-cyclical role and to exercise greater flexibility including on program and instrument choice. In this context, the Bank will consider reviewing the adequacy of its Credit Policy.

IV. Review of the Bank's Capital

4.1 Review of the Bank's latest capital increase

The Fifth General Capital Increase³ (GCI-V), which was adopted in 1998, has supported the Bank's operational activities since it became effective in 1999.

4.1.1 An Ad-hoc Committee was established in 1994 to examine and consider the studies and issues related to a General Capital Increase (GCI), deliberate on the preliminary proposals arising from the studies, hold consultations with member countries and make an appropriate recommendation for a GCI-V⁴. Subsequently in 1997, a Sub-

³ Approved by the Board of Governors of the Bank on May 29, 1998 under Resolution B/BG/98/05.

⁴ In compliance with the relevant provisions of Resolution B/BG/98/06, the Committee membership was established as follows: Botswana (Chairman), Algeria, Canada, Cote d'Ivoire, Democratic Republic of Congo, Egypt, France, Gabon, Ghana, Japan, Libya, Morocco, Mozambique, Nigeria, Sweden, Uganda, U.K, USA and Zambia.

Committee⁵ of the Ad-hoc committee was created to facilitate the deliberation of issues, assess the size and nature of an increase in resources, and examine the structure of capital, voting rules, and subscriptions payment. The Sub-Committee was also responsible for holding consultations with member countries on capital increase.

4.1.2 The findings and conclusions of the Committee were that, although there was no need for an immediate GCI for operational reasons, a capital increase was however required on financial grounds to strengthen the Bank's financial ratios. The Committee recognized that the Bank's usable capital capacity (as measured by the debt to usable capital) was a key indicator of financial health and adequacy of resources, which needed to be improved to send positive signals to the financial markets and ratings agencies on the shareholders commitment to the Bank and its new orientation.

4.1.3 Furthermore, the committee acknowledged that a GCI would improve the institution's risk-bearing capacity, provide the resources to engage more aggressively in private sector development, and allow the Bank to face a potential increase in its lending operations. Hence, their main recommendations were:

- A 35% increase of the Bank's capital from UA 16.2 billion to UA 21.87 billion;
- A Paid-in portion of 6%, payable in 8 equal annual installments;
- A new and more balanced shareholding structure of the Bank safeguarding the interests of all shareholders by raising the share of non-regional members from 33.33 to 40%;
- Equal treatment of all shareholders, and unlike the subscription payment arrangements of the Fourth General Capital Increase (GCI-IV), a uniform payment schedule for all shareholders, in convertible currencies;
- Issuance of shares representing the paid-up portion of any subscription only as and when the Bank receives the actual payments for such shares in cash in order to avoid the high incidence of arrears in the past.

4.2 Capital Structure of the Bank

The Bank's authorized capital stock amounts to UA 21.87 billion⁶ and has been allocated to regional and non-regional members in such proportion that, when fully subscribed, the regional group holds 60 percent of the total capital stock and the non-regional group 40 percent⁷. The capital is made of paid-up (payable in cash) and callable shares. Table 4 summarizes the capital position of the Bank.

⁵ Composed of 8 members drawn from the Ad hoc committee, and Bank staff, with the office of the Secretariat General of the Bank acting as secretariat.

⁶ The authorized capital is expected to increase to UA 22,120 million once Turkey and Luxembourg complete the formalities to become a member of the African Development Bank Group.

⁷ 99.50% of the capital is currently subscribed, and the unsubscribed shares are composed of shares forfeited that are scheduled to be reallocated to members under the Bank's share transfer rules, and shares of the former Republic of Yugoslavia.

Table 4: The Bank's Capital Position as of 31 December 2008 (in UA million)

| | Authorized Capital | Subscribed Capital | Paid-up Capital | Callable Capital |
|----------------------|--------------------|--------------------|-----------------|------------------|
| Regional members | 13,122 | 13,087 | 1,480 | 11,608 |
| Non-regional members | 8,748 | 8,669 | 868 | 7,801 |
| Total | 21,870 | 21,756 | 2,348 | 19,409 |

The current total paid-up to total capital ratio of the Bank is 10.8%.

4.3 Capital Adequacy Management

4.3.1 The adequacy of the Bank's capital resources is managed through three strategic limits (see complete description in Annex 1) which operate as capital replenishment triggers:

- *The risk capital utilization limit or Risk Capital Utilization Rate ratio (RCUR)* which restricts on a risk weighted basis the exposure assumed by the Bank through all its operations to 100% of risk capital, i.e. paid-in capital plus reserves.
- *The leverage policy limit or Debt to Usable Capital ratio (DUC)* which restricts gross outstanding debt to 100% of usable capital, i.e. callable capital of member countries rated AA or better, plus reserves and paid-in capital
- *The statutory lending limit or gearing ratio* (defined by Article 15.1 of the charter) which caps total outstanding commitments to 100% of unimpaired subscribed capital and reserves

4.3.2 The current levels of these strategic prudential ratios are summarized in Table 5. The low levels of these ratios with respect to their limits do not mean that the Bank is overcapitalized or has adequate capital headroom. Adequate capitalization is a dynamic concept that takes into account the expected growth of the lending portfolio as anchored in the MTS and the recent response to the financial crisis and longer term institution growth as going concern. The adequacy of the Bank's capital is also judged in terms of its ability to absorb the risks in its balance sheet and continue to support lending operations during a sustained period of time while protecting the shareholders by minimizing the probability of call on capital.

Table 5: The Bank's strategic prudential ratios as of 31 December 2008

| Prudential Ratios | Level | Limit |
|-------------------|-------|-------|
| Risk Capital | 44% | 100% |
| Leverage | 59% | 100% |
| Gearing | 38% | 100% |

V. Rationale for a capital increase

5.1 Projected Levels of the strategic limits

Table 6: Monitoring of Strategic limits under the MTS and Financial crisis scenarios

| MTS* | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--------------|------|------|------|------|-------------|------|-------------|------|------|------|
| Risk Capital | 49% | 55% | 63% | 72% | 83% | 95% | 106% | 116% | 125% | 132% |
| Leverage | 66% | 73% | 82% | 94% | 109% | 124% | 140% | 154% | 166% | 175% |
| Gearing | 45% | 55% | 64% | 75% | 86% | 96% | 106% | 115% | 123% | 129% |

| Short-Lived Crisis scenario* | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|------------------------------|------|------|-------------|------|------|-------------|------|------|------|------|
| Risk Capital | 54% | 68% | 78% | 88% | 99% | 109% | 120% | 129% | 137% | 142% |
| Leverage | 77% | 94% | 104% | 117% | 132% | 147% | 162% | 174% | 183% | 191% |
| Gearing | 49% | 66% | 76% | 86% | 97% | 107% | 116% | 123% | 130% | 135% |

| Drawn-out crisis scenario* | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|----------------------------|------|------|-------------|-------------|------|------|------|------|------|------|
| Risk Capital | 55% | 69% | 85% | 100% | 117% | 132% | 147% | 160% | 171% | 177% |
| Leverage | 78% | 96% | 112% | 132% | 156% | 180% | 203% | 221% | 236% | 247% |
| Gearing | 51% | 76% | 94% | 111% | 127% | 142% | 157% | 170% | 180% | 189% |

*The projected strategic limit ratios are subject to changes linked to the continuous updating of the portfolio, financial statements and assumptions.

5.1.1 Table 6 above presents the overall financial implications of the Bank's lending program under the MTS, the short-lived crisis scenario, and the drawn-out crisis scenario. The key assumptions underlying these financial projections are detailed in Annex 2 and include primarily the lending program, as well as the disbursement and repayment profile of loans. The need for adequate capital resource to sustain growth is confirmed by the long term evolution of the strategic limits.

5.1.2 The available borrowing headroom will **be used up by 2013 in order to support the lending growth of the MTS**. The risk-bearing capacity required to cope with the increased exposure to both the public and private sector portfolio and to finance and replenish development initiatives will be exhausted in 2015.

5.1.3 The additional lending generated by the Bank's response to the financial crisis will result in a swifter depletion of this excess risk-bearing capacity. The debt to usable

capital ratio, already under upward pressure with the MTS, will **reach its 100% limit in 2011 under the crisis scenarios**. The Risk Capital Utilization Rate and the gearing ratio are coming close to breaching their limits in 2013 under the short-lived crisis scenario, and are expected to breach them in 2012 under the drawn out crisis.

5.1.4 The projected financial position indicates that in order for the Bank to fulfill its development mandate while remaining a financially strong institution, a strategy for future capital increases should be considered. In this respect, the trigger for a capital increase discussion could be as early as 2009.

5.2 Financial Policy options to increase headroom

5.2.1 Several options have been considered to enable the Bank to free up headroom in the face of increased lending in a volatile market environment. In this regard, however, an in-depth analysis shows that they would not ensure a sustainable and long term increase in its capital resources. They are “simple arithmetic” **that might provide temporary relief but will not provide sustainable capital over the medium to long term.**

5.2.2 Management also believes that the timing for some of these options is not opportune given the current environment. After a period during which the Bank lost its uniform AAA credit rating, the Bank has not only recovered its coveted rating, but has also regained the confidence of the rating agencies largely through the perception of the very strong support which it enjoys from its shareholders. At this time of economic turmoil and with the Bank, under its MTS, looking to substantially increase lending to the (riskier) private sector, Management strongly believes that possible adjustments to the definitions of various strategic limits could very likely be interpreted by the rating agencies and others as a sign of waning support from shareholders and a weakening of prudential guidelines. If such adjustments were also to occur at the same time that other MDBs receive a capital increase, the question of shareholder support would come under closer scrutiny.

5.2.3 Various “headroom relief” options that have been considered include: 1) an increase in capital consisting of only callable capital or only paid-in capital, 2) an increase of yearly income allocations to reserves with a corresponding decrease of allocations to development initiatives and 3) alternative definitions of the debt ratio and/or the risk capital ratio. An extensive review of these options is presented in Annex 3.

VI. Capital increase scenarios

6.1 A GCI is usually triggered by the need to ensure the adequacy of capital resources in keeping with its operational requirements and sustain exogenous shocks. All the members of the Bank have the right, but not the obligation, to a proportion of the capital increase equivalent to their current shareholding. A GCI, through the combined effect of paid-in and callable capital would provide the resources needed to support both the Bank's capital adequacy and its leverage and lending ratios. The size of the capital increase, together with its payment profile will be determined in line with lending projections.

6.2 Today the Bank faces the unique challenge of mobilizing resources from members who have also been hard hit by the financial crisis. In structuring the terms and conditions of the capital increase, care should be taken to maximizing the impact of the GCI on the Bank's operational capacity while striving to dampen the financial impact on subscribing members. The principle of uniformity in payment terms for both regional and non-regional members which was introduced following the GCI-IV in 1987 will be respected.

6.3 The scenarios presented below, assume the **adoption of a GCI-VI in 2010, representing a 200% capital increase, with a paid-in capital ratio of 6% and payments spread out over an 8-year period starting in 2011.** The assumptions underlying the financial projections on which the scenarios have been built are detailed in Annex 2.

Table 7: Scenario 1: MTS

| MTS * | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--------------|------|------|------|------|------|------|------|------|------|------|
| Risk Capital | 49% | 55% | 59% | 64% | 70% | 75% | 79% | 83% | 86% | 87% |
| Leverage | 66% | 73% | 37% | 42% | 47% | 54% | 60% | 65% | 69% | 72% |
| Gearing | 45% | 55% | 24% | 28% | 32% | 36% | 39% | 42% | 45% | 47% |

Table 8: Scenario 2: Short-lived crisis

| Short-lived crisis scenario | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|-----------------------------|------|------|------|------|------|------|------|------|------|------|
| Risk Capital | 54% | 68% | 73% | 77% | 82% | 87% | 90% | 92% | 94% | 94% |
| Leverage | 77% | 94% | 47% | 52% | 58% | 64% | 70% | 74% | 77% | 79% |
| Gearing | 49% | 66% | 28% | 32% | 36% | 40% | 43% | 45% | 48% | 49% |

Scenarios 1 and 2 are based on the Medium Term Strategy and short-lived crisis scenarios, respectively. A 200% capital increase combined with a paid-in capital ratio of 6% will enable the Bank's financial ratios to remain within their limits until 2018.

Table 9: Scenario 3: Drawn-out crisis

| Drawn-out crisis scenario | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------------------------|------|------|------|------|------|------|------|------|------|------|
| Risk Capital | 55% | 69% | 79% | 88% | 98% | 105% | 111% | 116% | 119% | 119% |
| Leverage | 78% | 96% | 50% | 59% | 69% | 79% | 88% | 95% | 101% | 105% |
| Gearing | 51% | 76% | 35% | 41% | 47% | 53% | 58% | 63% | 67% | 70% |

Under the drawn-out crisis scenario, the risk capital ratio is projected to reach its upper limit as early as 2014.

6.4 A second set of simulations based on a 10% paid-in capital ratio with payments spread over 8 years is presented in Annex 5. This capital increase would maintain the Bank’s prudential ratios within their limits until 2018 in all scenarios presented above.

6.5 Table 10 below details a comparative analysis of GCI-V and GCI-VI proposals.

Table 10: Summary of GCI proposals

| In UA million | Capital increase | Paid-in capital | Annual paid-in capital for member with a 1% share of capital – 8 yr period |
|-------------------------------------|------------------|-----------------|--|
| GCI-V | 5,670 | 340 | |
| GCI-VI – 6% Paid-in capital | 43,740 | 2,624 | 3,28 |
| GCI-VI - 10% Paid-in capital | 43,740 | 4,374 | 5,47 |

VII. GCI-VI process

7.1 The Sixth General Capital Increase that will be undertaken by the Bank will be carried out in conformity with the relevant provisions of the Bank Agreement (the “Agreement”), notably, Articles 5(3) and (4), 6, 7, and 29. It is important to note that resources generated from the GCI will be part of the Ordinary Capital Resources of the Bank in accordance with Article 9(a) of the Agreement.

7.2 The GCI will be initiated by a Resolution of the Board of Governors authorizing the commencement of consultations for a Sixth General Capital Increase of the Bank. Such a Resolution would need to be adopted as soon as possible, and no later than the close of the 2009 Annual Meetings to be held in Dakar, Senegal. The essential legal principle underpinning the GCI will be the maintenance of the 60/40 ratio in the voting power structure of the Bank at the end of subscriptions and payments of the called portion thereof.

7.3 Management will prepare all of the technical work necessary to effectuate the Capital Increase under the guidance of the Board of Directors and all such work shall be

reviewed by the Governors' Consultative Committee, in accordance with its Terms of Reference, before submission for adoption by the Board of Governors. Such technical work will include consideration of any proposed amendments to the Agreement that will be necessary to render the GCI effective. Given lessons learnt in the process of concluding GCI-V, it may be prudent to establish a sub-committee of the GCC that will be charged with the responsibility of holding consultations with member countries to facilitate the GCI.

VIII. Conclusion and recommendations

8.1 The development challenges faced by the Bank in the coming years require that timely steps be taken by member countries to ensure the capital adequacy of the institution. This is made necessary to provide the Bank with the capacity to support the scaling up of its operations as envisaged by its medium term strategy and response to the financial crisis since, under current capitalization, these operational scenarios will result in the depletion of the Bank's lending headroom by 2011.

8.2 This document is the first formal step in that direction and is intended to launch this process. The Board of Directors is hereby requested to transmit to the Board of Governors for its adoption at the 2009 Annual Meetings a Resolution authorizing the commencement of consultations for a Sixth General Capital Increase of the Bank.

ANNEXES

Annex 1: Key Strategic Ratios monitoring the Bank's capital adequacy

The adequacy of the Bank's capital resources is managed through three strategic limits:

- 1 The statutory lending limit or Gearing ratio** (defined by Article 15.1 of the charter) which caps total outstanding commitments (including undisbursed loans, equity participations and guarantees) to 100% of unimpaired subscribed capital and reserves

$$\text{Gearing} = \frac{\text{outstanding commitments (including undisbursed loans, equity participations and guarantees)}}{\text{unimpaired subscribed capital and reserves}} < 100\%$$

- 2. The leverage policy limit or debt ratio** which restricts gross outstanding debt to 100% of Usable capital. Usable capital is defined as callable capital of member countries rated AA or better, plus reserves and paid-in capital

$$\text{Leverage} = \frac{\text{gross outstanding debt}}{\text{usable capital (callable capital of member countries rated AA or better + reserves + paid-in capital)}} < 100\%$$

- 3. The risk based limit** is monitored using the Risk Capital Utilization Rate (RCUR) which is defined as the ratio between the exposure assumed by the Bank on a risk weighted basis through all its operations (lending, investment, and other operational activities) and the total available risk capital. The risk capital corresponds to paid-in capital plus reserves.

$$\text{Risk Capital Utilization Rate} = \frac{\sum \text{Exposure} * \text{Risk Charges}}{\text{Risk Capital (Paid-in Capital + Reserves)}} < 100\%$$

Annex 2: Key assumptions for the financial projections

There are several assumptions that drive the financial projections, the most sensitive being the lending program and its disbursement and repayment profile, the average risk rating of the portfolio and other assumptions related to return and income.

Lending scenarios

The lending scenarios for the projections are presented in sections 3.2 and 3.3 of the document.

- The MTS scenario is unchanged from the lending scenario approved by the Bank in its Medium Term Strategy and assumes that from 2013 onwards, the 2012 lending level will be maintained.
- The short-lived crisis scenario only takes into account the additional lending expected as a response to the crisis, including the ELF and TFI initiatives. This scenario assumes additional lending of UA 1,419 million in 2009 and UA 1,394 million in 2010 respectively that will be fully disbursed during the approval year.
- The drawn-out crisis scenario incorporates the total estimated demand that the Bank is likely to face as a result of the financial crisis. An increase of UA 4.2 billion over MTS projections is assumed over the 2009-2010 period. Beyond 2010, an additional average yearly lending program of UA 1.66 billion over MTS projections is envisaged.

Portfolio related specific assumptions

The following assumptions have been made for the portfolio development over time:

- The disbursement profiles of approved loans are primarily based on the analysis of historical disbursements for ordinary lending, and include specific disbursements profiles for Private sector loans, Lines of Credit, Project Based Loans and Project Loans. For the new instruments (Emergency Liquidity Facility and Trade Finance Facility), specific fast disbursement characteristics have been taken in account.
- Ordinary loans are repaid over a period of 15 years after a 5-year grace period. Loans of new initiatives have a shorter repayment profile (average of 5 year maturity).
- The default status of loans and the level of loan provisioning are expected to remain unchanged.
- The weighted average risk rating of the Bank's loan portfolio will remain between 3 and 4.
- The risk capital charges are based on the proposed revised capital adequacy policy

Profit Margin and distribution of Net Income

- A positive margin of 20 bps is expected between the cost of borrowings and the interest earned on investments.
- The pricing of new approved sovereign loans is based on the cost pass through margin of 40 bps recently approved by the Board. An average margin of 120 bps is estimated for private sector loans. The expected specific pricing of the new facilities was also taken in account.
- Net income is expected to be distributed only to mandatory past undertaking (ADF and the Democratic Republic of Congo (DRC)) which represent approximately 41% of the projected net income. The remaining net income is allocated to reserves.

Annex 3: Financial Policy Options

1. *Increase in callable capital only*

This option would not have an immediate financial impact on shareholders and would not result in cash outlays. Callable capital can only be called upon to meet the debt obligations of the institution (bonds issued in the capital markets, guarantee extended, etc) in case of financial distress. In that regard, market participants and ratings agencies only look at the callable capital of countries rated AA or better as a proxy for the amount that would be forthcoming in the event of a call on capital. An increase in callable capital only, while minimizing the immediate financial burden of shareholders, would have a positive impact on the leverage ratio and expand the capacity of the Bank to borrow from the capital markets. It provides the desired headroom depending on the level of increase in callable capital. Assuming a 94% increase from the current callable capital, the debt limit will be reached in 2018 for the MTS scenario.

The main drawback of this option, however, is that it will not have an effect on the RCUR. The Bank will remain constrained in terms of capital adequacy and more particularly for the level of required risk capital to respond effectively to external shocks.

2. *Increase in paid-in capital only*

While this option would increase the total risk capital available, it will not have a significant impact in terms of creating additional borrowing headroom. A 6% increase in paid-in capital will provide only 1 year additional headroom for the borrowing limit. The debt limit will be reached in 2012 as compared to 2011 for the short-lived crisis scenario.

3. *Increased income allocations to reserves*

Cumulative income over the MTS period is expected to be around UA 868 million of which UA 355 million are committed to mandatory undertakings. Should such amount be allocated to reserves instead of these committed undertakings, it would not have any significant impact on the leverage ratio and would increase the capital adequacy headroom by only one year in the MTS scenario. This option is not considered realistic as it would require the Bank to allocate most of its net income to reserves and it would not fulfil its commitments for recurrent and past undertakings. It also implies that no new development initiatives would be considered during the MTS period.

4. *Inclusion of Callable Capital of other countries rated investment grade (BBB- to AA-) in Usable Capital*

In this scenario, the leverage ratio could be adjusted by including in the definition of usable capital the callable capital of countries rated BBB- to AA-. Arithmetically, this increases the Bank's borrowing headroom by UA 2.6 billion. This will enable the Bank to operate with its existing capital for an additional year (until 2014) in the case of the MTS scenario).

However, adopting this approach will weaken the perceived strength of the Bank's bondholders guarantee provided by the callable capital and could negatively impact the Bank's credit rating. This perception of strength and backing of the bondholders is

particularly relevant given the riskier environment in Africa, and the current volatile financial environment.

5. *Use of Net Debt Ratio*

The Net Debt concept only takes into account the debt raised to finance Development Related Exposures, while debt which is raised to fund liquid investment securities (rated above AA-) is excluded.

$$\text{Net Debt Ratio} = \frac{\text{DEBT} - \text{LIQUID INVESTMENT (investments rated } > \text{ AA-)}}{\text{Usable Capital (for shareholders rated at or above AA)}} < 100\%$$

By excluding liquid investments rated better than AA- from gross outstanding debt, the net debt ratio under the MTS scenario will be 31% in 2009 and will reach 100% in 2015, thereby postponing a capital increase by 2 years. However, Management believes that utilization of the net debt concept is an **imprudent leverage management adjustment**, particularly in the current market environment as noted above. This ratio suffers a number of drawbacks: (i) it can result in an increase in the Bank's overall debt level when the additional debt contracted is invested in so-called liquid assets, (ii) the assumption of liquidity of highly rated assets is questionable, as has been evidenced during the financial crisis, (iii) substituting net debt for gross debt will send the wrong signal to bondholders about the degree of protection provided by the Bank's financial position, and (iv) it might convey a message that the Bank does not benefit from strong shareholder support.

6. *Exclusion of undisbursed and unsigned commitments from the computation of prudential ratios*

In this scenario, only disbursed and outstanding commitments are taken into account in the lending (gearing) and risk capital utilization limits (the debt ratio is not affected by such exclusion). With this adjustment, the gearing ratio would reach its limit after 2018 instead of 2015 under the MTS scenario. Notwithstanding the fact that the debt ratio remains unaffected, Management believes that this option constitutes a threat to the Bank's balance sheet management since un-disbursed balances for loans, equity investments and guarantees are commitments made by the Bank and are not off-balance sheet items. Furthermore, the exclusion of un-disbursed commitments, for which no or only marginal risk charges were allocated, has been one of the primary criticisms against some capital frameworks, including Basel I.

Management has also reviewed the legal basis for the lending limitation imposed upon the Bank, and its analysis is attached as Annex 4. Nevertheless, Management has determined that the lending limitation imposed by Article 15(1) will not act as a constraint upon the Bank's capacity to lend until 2015 under the MTS scenario. Hence, even if the Bank was to interpret Article 15(1) as referring to amounts disbursed rather than amounts committed, there would still be a case for a General Capital Increase.

Annex 4: Legal Note on exclusion of undisbursed commitments from the computation of lending limits

1. Management has reviewed the legal basis for the lending limitation imposed upon the Bank. Article 15(1) of the Agreement Establishing the African Development Bank (the “Bank Charter”) provides that:

“The total amount outstanding in respect of the ordinary operations of the Bank shall not at any time exceed the total amount of its unimpaired subscribed capital, reserves and surplus included in its ordinary capital resources.”

2. The Bank has consistently understood the “total amount outstanding in respect of the ordinary operations of the Bank” to refer to the total amount committed (i.e. both disbursed and undisbursed amounts) less amounts repaid or cancelled (hereinafter referred to as the “commitment interpretation”), rather than only the total disbursed amount of loans that have not been repaid (the “disbursement interpretation”).
3. In a comprehensive legal opinion issued in 1982 by the then-General Counsel, the Bank’s approach was analyzed and confirmed as the correct interpretation.⁸ In arriving at this conclusion, he opined that from the legal perspective, the disbursement interpretation did not satisfactorily take into account equity investments and guarantees which may be part of the Bank’s ordinary operations but are not necessarily reflected fully in disbursements. In essence, it was his view that when dealing with guarantees, it would be imprudent for the Bank to assert that the “outstanding” amount of a guarantee only referred to the amount of the guarantee that had been drawn down, as the lender might at any time enforce the guarantee for the whole amount. Likewise, in the context of equity investments, the Bank could not treat as “outstanding” merely the portion of capital it had paid in; it must count the total amount it had committed (both paid-in and callable capital), as it cannot control or easily predict the conditions that might lead to a materialization of its obligations to make disbursements (under a loan), make payment (under a guarantee) or pay in capital (for an equity investment).⁹
4. This opinion was subsequently reiterated in another legal opinion issued in 2004 by the General Counsel at the time.¹⁰
5. Management is aware that other multilateral development banks, which have substantially similar provisions to Article 15(1) in their respective charters, have adopted differing interpretations. The International Bank for Reconstruction and Development (the “World Bank”) initially adopted the disbursement interpretation as a matter of financial policy rather than legal interpretation.¹¹ The Asian Development Bank (“AsDB”) and the European Bank for Reconstruction and Development, which

⁸ See “*The Extent of the Bank’s Legal Obligation to cover its Lending Commitments*” dated 24 February 1982

⁹ *Ibid.* paragraphs 4.2 to 4.6.

¹⁰ See “*Advisory Legal Opinion on Borrowing Limits under Bank Agreement*” (Ref: GECL/AAA/dt/memo/159/04) dated 6 April 2004

¹¹ Information available indicates that the Inter-American Development Bank (“IADB”) also follows the disbursement interpretation. Specific information on the IADB position is being sought.

originally adopted the commitment interpretation, departed in 2008 from their previous positions. The Asian Development Bank has as of November 2008 adopted the disbursement position, while the European Bank for Reconstruction and Development has since March 2008 interpreted “outstanding amount” as a percentage of commitments derived on the basis of historical rates of disbursement. The change in position in each case has involved a decision of the Board of Directors.

6. Having scrutinized the legal basis for the lending limitation imposed upon the Bank and following a review of the interpretations made by peer institutions and the reasons therefore, Management believes that the Bank’s well-established and consistent interpretation of the “*total amount outstanding in respect of the ordinary operations of the Bank*” under Article 15(1) of the Bank Charter as the total amount committed and “outstanding” (i.e. not cancelled or repaid) is in full accordance with the Bank Charter.
7. Management has determined, however, that the lending limitation imposed by Article 15(1) will not act as a constraint upon the Bank’s capacity to lend until 2014¹². Thus, even if the Bank was to interpret Article 15(1) as referring to amounts disbursed rather than amounts committed, this would not weaken the case being made for a General Capital Increase.

¹² See Board Document ADB/BD/IF/2009/46 entitled “Responding to the Economic Impacts of the Financial Crisis – Implications for the Prudential Ratio”

Annex 5: 200% GCI with a 10% paid-in capital ratio and a 8 year payment period

| MTS | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Risk Capital | 49% | 55% | 57% | 59% | 63% | 66% | 68% | 70% | 71% | 71% |
| Leverage | 66% | 73% | 37% | 42% | 47% | 53% | 58% | 62% | 66% | 68% |
| Gearing | 45% | 55% | 24% | 28% | 32% | 36% | 39% | 42% | 45% | 47% |

| Short-lived crisis scenario | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Risk Capital | 54% | 68% | 70% | 72% | 74% | 76% | 78% | 78% | 78% | 78% |
| Leverage | 77% | 94% | 47% | 52% | 58% | 63% | 68% | 71% | 73% | 74% |
| Gearing | 49% | 66% | 29% | 33% | 37% | 40% | 43% | 45% | 48% | 49% |

| Drawn-out crisis scenario | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Risk Capital | 55% | 69% | 76% | 82% | 88% | 93% | 96% | 98% | 99% | 99% |
| Leverage | 78% | 96% | 51% | 59% | 69% | 78% | 86% | 92% | 96% | 99% |
| Gearing | 51% | 76% | 36% | 42% | 48% | 53% | 59% | 63% | 67% | 70% |

Annex 6: Glossary of terms

Authorized capital: The total number of shares which the Bank is permitted to offer for subscription to its member states. It comprises the total subscribed and unsubscribed capital, and is divided into paid-up and callable shares. The decision to increase the authorized capital of the institution rests with the Board of Governors.

Paid-up capital: Portion of the subscribed capital payable over a prescribed period (8 years for GCI-V).

Paid-in callable: Portion of the paid-up capital whose payment has been received in cash.

Callable capital: Portion of the subscribed capital subject to call only in the unlikely event of the Bank's inability to meet its financial obligations, specifically, debt contracted or guarantees extended.